ECONOMIC CONTENTS

ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES & EVENTS

COVID-19 continued to devastate Afghanistan this quarter, with health officials estimating that almost one-third of Afghans have contracted the disease.

Afghanistan has experienced modest economic improvements, yet its GDP is projected to shrink 5.0%–7.4% in 2020 due to the effects of the pandemic.

While government revenues began to recover from the impact of COVID-19 this quarter, the Afghan government's sustainable domestic revenues declined by 17.2%, year-on-year, over the first nine months of 2020.

Many U.S. economic and social-development programs have been limited by the Afghan government's lockdown or redirected toward COVID-19 interventions.

The COVID-19 pandemic continued to devastate Afghanistan this quarter, with consequences for the country's economic and social development. As of October 15, 2020, the number of confirmed cases remained relatively low at 40,026, with the positivity rate falling to 34.5%.[542] Public health officials, however, have warned that the confirmed number of cases vastly undercounts the spread of the virus due to Afghanistan's low testing capacity and the limited reach of its public health system.[543]

On August 5, 2020, Acting Health Minister Ahmad Jawad Osmani announced that COVID-19 had likely infected approximately 10 million Afghans, or 31.5% of the estimated population, according to a Health Ministry survey of antibody tests. According to available data, Afghanistan's urban areas have been the hardest hit, with more than half of Kabul's population of five million estimated to have contracted the virus.[544] While many have recovered, the extent of the death toll is unknown due to limited testing, many infected Afghans not seeking treatment, and the absence of a national death registry. Anecdotal evidence points to a much higher death figure than the Ministry of Public Health's official count of 1,481.[545] In late September, Osmani further warned of a "second wave" hitting Afghanistan

The Afghan government's lockdown severely limited economic activity. A Hejaz Super Market manager in Jalalabad City said the number of customers had decreased drastically since March 2020. (UNAMA photo by Shafiqullah Waak)

as winter weather combined with seasonal diseases and increasing air pollution contribute to the spread of COVID-19.[546]

According to an official with Médecins Sans Frontières (MSF), COVID-19 is a "crisis on top of a healthcare system that has been failing in recent years."[547] With an already perilously limited healthcare system, Afghanistan has faced nearly insurmountable difficulties in preventing the spread of the disease. Health-care providers have struggled to implement healthy practices among the population—many Afghans are seen not wearing masks or practicing social distancing—and properly manage procedures for infection prevention and control measures within hospitals and clinics.

Beyond the public health effects, the COVID-19 pandemic continued to harm the economy with repercussions for Afghanistan's future economic growth. The United Nations Development Programme (UNDP) country representative in Afghanistan, Abdallah Dardari, stated, "COVID-19 did set back some progress in attainment of the Sustainable Development Goals [and] improvement in economic growth. … COVID-19 was a shock that set back many of those nascent and modest achievements."[548] SIGAR reported in its July 2020 quarterly report that the economic contraction caused by the pandemic led to a surge in unemployment, with two million people having lost their jobs by the end of April 2020. The increase in unemployment was matched by rising food prices due to supply disruptions caused by the border closures and panic buying, exacerbating food insecurity and the risks of malnutrition across the country.[549]

Over the past quarter, economic conditions have begun to see some improvement as businesses began to reopen. Casual labor, or day labor, wages increased by 5% between May and July, and food prices declined as restrictions eased and the summer wheat harvest appeared. Food prices, however, remained significantly higher and labor opportunities significantly lower in comparison to the previous year, with large sections of the population remaining food insecure as a result.[550] According to the UN World Food Programme, the price of wheat during the third week of September 2020 was 12.6% higher than the second week of March (just before government-mandated lockdown); the price of low-quality rice was 18.1% higher and cooking oil 26.8% higher than pre-lockdown prices.[551]

Despite modest improvements, broader economic challenges persisted. In early September 2020, the World Bank and its affiliated International Finance Corporation found in a USAID-funded survey of 389 businesses in the agriculture, manufacturing, and service sectors that a majority reported increasing liquidity problems and, without government interventions or support, will likely be able to remain open only for another two months. According to the survey, the manufacturing sector was the "most prone" for closures, with the highest percentage of businesses able to remain open in the agriculture sector. Of surveyed businesses, 98% reported receiving no government support in response to the pandemic.[552] The UNDP estimated that without an effective government response to the economic effects of COVID-19, Afghanistan's GDP could contract by as much as 6.25%; the World Bank forecasted a contraction of 5.5%–7.4%; and the Asian Development Bank predicted a 5.0% decline in GDP during 2020.[553] Due to the ongoing problems posed by the pandemic for individual workers, UNDP further estimated that the poverty rate in Afghanistan will increase to 68% in 2020 from its pre-pandemic level of 55%.[554]

Largely as a result of COVID-19, the Afghan government's sustainable domestic revenues contracted by 17.2%, year-on-year, over the first nine months of 2020, SIGAR analysis of Afghan government accounting data showed.[555] This contraction was particularly driven by the fall in customs duties and taxes—comprising approximately one-fifth of all revenues. In July 2020, Afghan exports to Pakistan, Afghanistan's leading trading partner, decreased by 56.8%, as compared to July 2019; imports from Pakistan decreased by 43.6%.[556] While the collection of customs revenues began to recover following the resumption of cross-border trade activity in July, customs duties and taxes still fell 41.3% over the first nine months of 2020, as compared to the same period last year. Government expenditures also began to decrease, falling by 0.7% over the first nine months of 2020 compared to the year-ago period in part due to restricted government activity during the lockdown, according to the MOF.[557]

Sustainable Domestic Revenues: According to Afghanistan Ministry of Finance officials, these are revenues such as customs, taxes, and nontax fees. Multilateral institutions, including the World Bank and the International Monetary Fund (IMF), use reports of these revenues to judge the Afghan government's fiscal performance.

One-Off Domestic Revenues: These are nonrecurring revenues arising from one-time transfers of funds, such as central bank profits, to the Afghan government. The IMF excludes central bank transfers from its definition of domestic revenues for the purpose of monitoring Afghanistan's fiscal performance under its Extended Credit Facility arrangement with the government.

Source: SIGAR, communications with MOF officials, 8/21/2017; SIGAR, communications with IMF officials, 9/7/2017.

Afghan girls at a reopened school wash their hands as a precaution against COVID-19. (USAID photo)

COVID-19 CONTINUES TO PLAGUE AFGHANISTAN

The Afghan government has relaxed the country-wide lockdown instituted in March, but the COVID-19 pandemic continues to damage Afghanistan's public health and economy. As of October 15, 2020, the country has reached 40,026 confirmed cases with 1,481 associated deaths, according to the Afghan Ministry of Public Health.[558] However, given the low availability of testing, limited hospital capacity, absence of a national death registry, and reluctance of many Afghans to seek treatment, this is likely a severe undercount of COVID-19 cases and deaths. The pandemic has severely stretched Afghanistan's health-care system, and is leading to secondary health effects that might negate recent years' progress and hurt Afghanistan's public-health prospects in the long term.

Afghanistan's Health-Care System Lacks Capacity to Address COVID-19

In dealing with the COVID-19 pandemic, Afghanistan's health-care system has struggled with a lack of resources, including personal protective equipment (PPE), ventilators, hospital beds, and medical staff necessary for treating COVID-stricken patients. Even before the pandemic, the country faced shortages of trained health-care professionals with a nationwide average of only 4.6 medical doctors, nurses, and midwives per 10,000 people as of 2017, far below the World Health Organization's (WHO) threshold of 23 per 10,000 people for a critical shortage.[559] In rural regions, this shortage is more pronounced. In Kunar Province, for instance, the number of doctors per 10,000 people drops to only 0.5.[560]

The Afghan government's limited capacity has not only hindered its ability to contain the disease, but also to accurately determine its spread through the population. The Afghan government has carried out 115,968 tests for an estimated population of more than 30 million, as of October 15, 2020, far below other countries in the region.[561] By September 15, 2020, Afghanistan had conducted only 2,740 tests per one million people. In contrast, Pakistan had conducted 13,510 tests per million, India 42,000 tests per million, and Bangladesh 10,645 tests per million.[562] Afghanistan currently has 13 operational testing labs with the technical ability to carry out at least 5,000 tests per day, far below the estimated 10,000–20,000 samples received daily.[563] The United Nations Development Programme (UNDP) reported shortages of both testing kits and health-care workers, especially with so many workers themselves infected, combined with a general reluctance within the population to be tested for the disease.[564]

COVID-Related Donor Support for Afghanistan Continued This Quarter

International donors continued to provide COVID-related financial support to Afghanistan this quarter to help mitigate the economic impact of the pandemic. In early August, for instance, the World Bank approved two additional grants totaling $210 million, as part of a larger $380 million financial package, to bolster relief efforts for Afghan families and emergency support for farmers and food supply chains.[565] Later in the month, the International Monetary Fund announced an agreement with Afghanistan for a new three-and-a-half-year Extended Credit Facility totaling $364 million to mitigate the economic impact of COVID-19.[566]

As of late July, the U.S. government, through the State Department and USAID, allocated over $36.7 million to the Afghan government for COVID-related assistance and expedited $90 million in existing support to the World Bank to support the health and education sectors.[567] In early August, USAID's Bureau for Humanitarian Assistance provided an additional $12 million to the United Nations World Food Programme to support its emergency food relief for 95,000 food insecure families.[568]

Afghan politicians have voiced concern that this influx of international COVID-related funds and increased Afghan government expenditures at the outset of the lockdown could lead to corruption. In July 2020, members of the *Wolesi Jirga*—lower house of parliament—raised concerns that President Ghani's $244 million "National Dining Table" food relief program only affords new opportunities for fraud and complained that its budget details had not been shared with lawmakers.[569] In late August 2020, the Office of the Ombudsperson, established in 2019 to provide oversight of senior government officials and to combat corruption, accused former Minister of Public Health Ferozuddin Feroz of embezzlement and misuse of authority, following an investigation requested by President Ghani of funds spent by the Ministry of Public Health to address COVID-19.[570]

Management and Behavioral Challenges to Containing Spread of COVID-19

Afghanistan's efforts to contain the spread of COVID-19 have been hampered by more than the lack of resources. Management and behavioral issues have further limited the government's ability to contain and treat the disease.

A major challenge for hospitals and clinics has been the lack of effective management of patient flows and proper implementation of infection prevention and control (IPC) measures.[571] For non-U.S. health-care settings, the U.S. Centers for Disease Control (CDC) recommends that effective IPC activities should prioritize limiting the entry of healthcare workers and visitors suspected or confirmed of having COVID-19, testing all suspected patients, treating suspected or confirmed COVID-19 patients separately, immediately identifying inpatients and workers suspected of having COVID-19, appropriate use of PPE, and other precautions including hand hygiene and cleaning and disinfection of equipment and surfaces.[572]

Given the inability to implement IPC measures, Afghan health-care workers have been particularly susceptible to contracting COVID-19. In May 2020, government health officials said more than a third of confirmed cases were among doctors and other health-care staff.[573] The rising infection rates among health-care workers exacerbated their already critical shortage. Given the dearth of nurses and doctors, there have been reports from Kabul hospitals of patients' family members, often without PPE and few wearing masks, stepping in and caring for their relatives, further increasing the risks of infection and spreading the disease.[574] With ineffective IPC measures and concern about becoming an infection hotspot, some doctors have closed their clinics, further straining Afghans' access to limited health resources.[575]

Even if healthcare is accessible, there is a reported reluctance among Afghans to seek testing and treatment for COVID-19. While access to healthcare is not uniform across the country, especially within areas not under government control, some individuals reported choosing to wait out the disease at home because conditions in hospitals were so poor they feared greater risks in seeking treatment.[576] There were also anecdotal reports that social stigmas and misinformation have led symptomatic individuals to avoid medical treatment for fear they will be deprived an Islamic burial if they are confirmed to have COVID-19 and die in a hospital.[577] A number of increasingly desperate Afghans have relied instead on various home remedies, traditional medicines, and even narcotics to treat the disease.[578] Additionally, Afghanistan's high poverty levels made it difficult for many individuals to stay at home and maintain quarantine given the need to continue working in order to feed their families, limiting the effectiveness of the government-mandated lockdown.

Cultural constraints have also limited women's access to testing and health care. According to the UN-affiliated International Organization for Migration (IOM), for every three men that are tested for COVID-19, only one woman is tested.[579] A health-care worker within an IOM-run health clinic in Herat observed, "I have seen women being brought to the clinic only when they are extremely sick. In a majority of these cases, women aren't allowed to see a male doctor. That is why such a comparatively low number of women are being tested for coronavirus."[580] As a result, men constitute over 70% of confirmed cases.[581]

Secondary Health Effects of COVID-19

With COVID-19 overwhelming Afghanistan's health sector, the country's limited resources have been redirected toward addressing the pandemic, at the expense of many other public-health issues. Surveys conducted by the United Nations Children's Fund (UNICEF) and WHO show that the pandemic has severely disrupted health-care service delivery with the potential to undo health gains made over the previous decade, particularly with respect to improved child mortality rates from preventable diseases.[582]

According to USAID's Disease Early Warning System, beginning in mid-February 2020, "Due to country focus on COVID-19, testing for other diseases has been suspended."[583] Subsequently in March 2020, Afghanistan suspended all child vaccination drives, including polio (Afghanistan and Pakistan are the only two countries in the world where polio remains endemic), to avoid the risk of COVID-19 transmission among targeted children, their families, and vaccinators.[584] By September 2020, 34,000 polio-surveillance volunteers were redirected to assist with COVID-19 surveillance, case identification, and community contact-tracing activities.[585] While polio vaccinations began again in July, the Global Polio Eradication Initiative reported 51 polio cases in Afghanistan in 2020 (as of early October), including cases in previously polio-free areas, due to the suspension of the vaccination campaign, compared to 29 total cases in 2019.[586]

The COVID-19 pandemic also has the potential to heighten antimicrobial resistance (AMR) rates in Afghanistan. AMR occurs when bacteria, viruses, and other microbes mutate over time and become resistant to medicines used to treat them, often exacerbated by the overuse of key medications such as antibiotics. As treatment options are rendered ineffective, resistant infections can spread within community and hospital settings turning common and once easy-to-treat infections into deadly ones. The CDC refers to AMR as "one of the biggest public health challenges of our time."[587]

In Afghanistan, AMR has become an increasingly troubling public health problem. Beginning in 2003, U.S. military doctors in the country began to confront this problem as wounded U.S. soldiers acquired antibiotic-resistant wound infections. By 2009, U.S. military hospitals introduced new measures to combat AMR, such as stricter guidelines on antibiotic use, surveillance of drug resistance, and better infection control.[588] Afghanistan's civilian population, however, has continued to struggle with AMR predominantly because of the persistent overuse of antibiotics and poor infection control measures. According to Médecins Sans Frontières (MSF), also known as Doctors Without Borders, Afghans rely on antibiotics for a wide range of ailments, many minor and not requiring antibiotics. Excessive antibiotic use (MSF reported that many people take antibiotics "like sweets"[589]), its availability over the counter, and lack of awareness of AMR creates an environment ripe for the spread of resistant bacteria. A 2014 study of antibiotic use in a Kabul hospital found that 62% of all outpatients in summer and 50% in winter were prescribed at least one antibiotic, far above the WHO recommendation of 30%.[590]

Medical staff have raised concerns that COVID-19 treatments could worsen AMR. Viral respiratory infections, such as COVID-19, often lead to deadly secondary infections including bacterial pneumonia, necessitating the use of antibiotics.[591] In Afghanistan, the increasing number of COVID-19 patients requiring a course of antibiotics, along with lack of effective IPC measures within the patient population, could fuel the spread of antibiotic-resistant infections. Beyond use within hospitals and clinics, many Afghans have also reportedly turned to self-administering antibiotics, despite their ineffectiveness in treating viruses, as an at-home treatment for COVID-19 given the lack of alternative options, further contributing to the problem of AMR.[592] With the opening of borders and resumption of regular cross-border traffic, this public-health challenge could have regional implications as antibiotic-resistant infections spread outside of Afghanistan.

The full scope of long-term effects of contracting the disease and the resulting impacts on health-care services are still being studied. However, many patients, even those with mild symptoms, have reported experiencing persistent COVID-19 symptoms months after initially contracting the disease. There is also a documented link between COVID-19 and organ damage, which could increase patients' future risk of various health ailments including heart failure, long-term breathing problems, and kidney and neurological disorders, among others.[593]

With the possibility that nearly one-third of the Afghan population has contracted the disease,[594] COVID-19 could have far-reaching, adverse long-term effects on the health-care system, limiting the effectiveness of future health intervention programs.

U.S. SUPPORT FOR ECONOMIC AND SOCIAL DEVELOPMENT: OBJECTIVES AND PROSPECTS

While the intensity and emphasis of U.S. reconstruction programs have shifted over the years, the United States has consistently worked to advance economic and social conditions in Afghanistan to support the broader stability of the country and in service of U.S. national security interests.[595] The U.S. government's current Integrated Country Strategy (ICS), released in 2018, states that economic prosperity in Afghanistan depends upon the United States' ability to advance private-sector-led export growth and job creation, and to bolster gains in health, education, and women's empowerment.[596] USAID's Country Development Cooperation Strategy (CDCS) for Afghanistan, nested within the ICS, further outlines the need to:[597]

- accelerate private-sector-driven, export-led economic growth
- advance social gains in health, education, and gender equality
- increase the Afghan government's accountability to its citizens

Senior U.S. leadership has highlighted the importance of promoting economic development to support any peace agreement coming out of the intra-Afghan negotiations. In an August 7, 2020, statement on the Loya Jirga in Kabul, Secretary of State Michael Pompeo stated, "To help Afghanistan realize peace, prosperity, and self-reliance, we are ready to support a peace settlement, including by extending U.S. development programs to previously under-served areas." He specifically highlighted the role of the U.S. International Development Finance Corporation (DFC)—the U.S. government development finance institution formed in December 2019 from the Overseas Private Investment Corporation and USAID's Development Credit Authority—and its potential as an alternative source of financing to support private investments in the agriculture and extractive industries in Afghanistan.[598] In a July 3, 2020, meeting with Taliban representatives in Doha, Ambassador Zalmay Khalilzad was joined by DFC CEO Adam Boehler and likewise "underscored the economic development opportunities that will follow a sustainable peace."[599] The DFC is exploring co-investment and co-financing opportunities with private investors that may emerge as the peace process moves forward, supporting a gradual transition from grant-based aid to an investment model for U.S. engagement with the Afghan economy.[600]

Yet, much hinges on the outcome of the intra-Afghan negotiations. U.S. officials have said continued U.S. financial assistance will be conditioned on the conduct and decisions of the parties in the peace talks. After the start of talks between the Taliban and Afghan government, Secretary Pompeo announced from Doha, "As you make your decisions, you should keep in mind that your choices and conduct will affect both the size and scope of future U.S. assistance. Our hope is that you reach a sustainable peace, and our goal is an enduring partnership."[601]

However, given the prevalence of many confounding factors in a conflict-ridden and aid-dependent state like Afghanistan, it is not clear that even a successful peace agreement will lead to meaningful economic and social development. The negative economic repercussions from COVID-19 wiped out the previous year's economic growth—2.9% in 2019—and will remain a major obstacle to any sustainable economic growth, at least in the short term.[602]

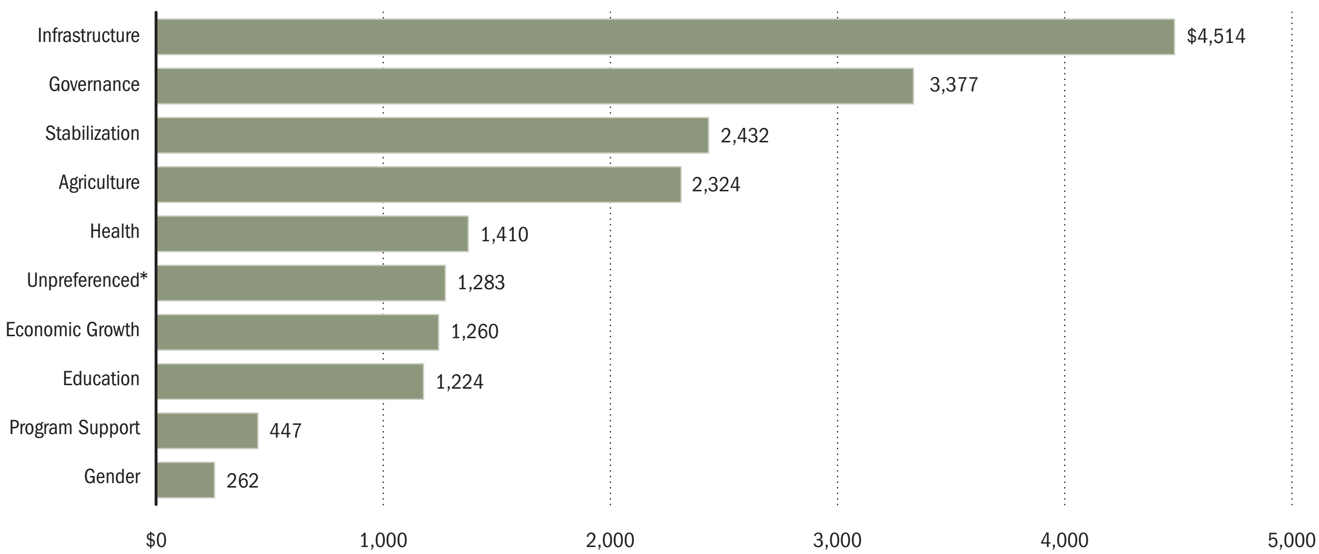
Even before COVID-19 first hit Afghanistan in late February 2020, Afghanistan had been plagued by a sluggish economy, noted for insecurity, corruption, limited government control, and various restrictions on accessing the formal market. Since 2014—the year in which U.S. and Coalition forces completed a phased military drawdown with resulting decreases in the level of U.S. financial assistance—annual GDP growth has not surpassed 3%, poverty levels have risen, some social-development indicators have stagnated, and the proportion of Afghans who perceive corruption as a problem in daily life has remained roughly unchanged.[603] The stress of the COVID-19 pandemic and the Afghan government's limited capacity to mitigate its impact have exacerbated many of these perennial economic and social challenges.

In addition to the pandemic, any positive impact from U.S. support for economic growth and social development in Afghanistan is further limited by uncertainties surrounding the outcome of the Afghan peace process and continued widespread insecurity. While the Asian Development Bank (ADB) projects that the Afghan economy will rebound in 2021 with modest growth of 1.5%, this assumes "that peace talks are successful and enable improved security and political stability." The ADB's *Development Outlook Report* for 2020 identifies "high uncertainty about every major factor: the persistence of the pandemic, security and political developments, international grant inflow, and weather" as key risks to future economic investments and growth.[604]

As of September 30, 2020, the U.S. government has provided approximately $35.95 billion to support governance and economic and social development in Afghanistan since 2002. Most of these funds—nearly $21.10 billion—were appropriated to USAID's Economic Support Fund (ESF). Of this amount, $20.03 billion has been obligated and $17.87 billion has been disbursed. Figure 3.34, on the following page, shows USAID assistance by sector.[605]

FIGURE 3.34

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF OCTOBER 9, 2020 ($ MILLIONS)



Note: USAID Mission-managed funds. Numbers are rounded. USAID gender programs managed by the agency's Office of Gender are presented as a separate category. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and programs that build health and education facilities. OFM activities (e.g. audits and pre-award assessments) included under Program Support funds.
*Unpreferenced funds are U.S. contributions to the ARTF that can be used for any ARTF-supported initiatives.

Source: SIGAR, analysis of USAID response to SIGAR data call, 10/12/2020; SIGAR analysis of World Bank, ARTF, Administrator's Report on Financial Status as of July 21, 2020, 10/7/2020.

ECONOMIC PROFILE

The U.S. plan to bolster private investment is part of a broader strategy to transition Afghanistan from being predominantly an assistance recipient to becoming an enduring economic partner in the long term.[606] Yet, Afghanistan remains poor, aid-dependent, and conflict-affected, with the potential for economic growth in the short term further limited by COVID-19.[607] Donor grants totaling $8.5 billion per year (covering both security and civilian assistance) finance more than half the Afghan government budget and 75% of total public expenditures (including funds not channeled through government ministries).[608]

Increased government service provision and an economy fueled by donor funds rapidly improved many development outcomes through the 2014 drawdown of most international troops. But licit GDP growth of just under 10% dropped to low-single-digit levels as the Afghan government assumed responsibility for the fight against the Taliban insurgency.[609] In its 2019 *Annual Survey of the Afghan People*, The Asia Foundation found that a majority of Afghans perceived the country to be moving in the wrong direction, citing worsening unemployment, the bad economy, and high prices. Moreover, over three-quarters of the survey's respondents saw the difficulties stemming from a poor economy as the greatest problem facing

Afghan youth.[610] This is a troubling concern, for over 63% of Afghanistan's population is under age 25, and new entrants into the labor force greatly outnumber job openings.[611]

In early 2020, 55% of Afghans lived below the poverty line, according to the most recent household survey data, an increase from 34% in 2008.[612] Poverty has only worsened in 2020 due to COVID-19 as remittances from Afghans working in adjacent countries declined, household budgets have been stretched by a spike in food prices matched by an increase in unemployment, and lockdowns and border closures have dampened overall domestic economic activity. The worsening economic conditions and border closures due to the pandemic also have led to decreased government revenues.

The Afghan government's inability to generate sufficient domestic revenue has been a longstanding challenge, stemming from limited government capacity, persistent corruption, tax evasion, and the strength of the informal and illicit economies. In Afghanistan, for instance, 90% of economic activity takes place within the informal economy, which often overlaps with and strengthens the illicit economy, including opium production, and so is not taxed by the government.[613] This has contributed to the country's dependence on external donors. In its 2019 *Doing Business* report, the World Bank ranked Afghanistan 167th of 190 countries in terms of government regulations that "enhance business activity," including the tax system.[614] The government has largely relied on simpler forms of revenue generation, including customs duties and income taxes. Given the relative ease of their collection, customs taxes have consistently been a primary source of sustainable domestic revenues for the Afghan government. Overreliance on customs revenue, however, is a double-edged sword in that it incentivizes trade policies conducive to increasing imports and hence, government revenue in the short term, but can undermine domestic production and ultimately slow economic growth in the long term.

Finance Ministry Announces New Kabul Bank to Merge with Bank-e-Millie Afghan

In August 2020, an Afghan Finance Ministry spokesperson announced the decision to merge New Kabul Bank with Bank-e-Millie Afghan, two of Afghanistan's three state-owned banks, with technical assessments for merging the banks' systems and assets having begun. The goal, according to the announcement, is to "improve the activities of government banks." Critics argued that the merger effectively serves to close an active business, further limiting the country's banking sector.[615] Since its founding in 2011, however, the New Kabul Bank, the country's largest commercial bank, has struggled, losing $56 million within its first four years in part due to strict rules on lending and investment. In 2015, Afghan government officials had considered merging New Kabul Bank with the other two state-owned banks, Pashtany Bank and Bank-e-Millie Afghan, but instead made multiple attempts to privatize it. The Afghan government, however, failed to find a suitable buyer.[616]

The Afghan government formed New Kabul Bank in place of the now-defunct Kabul Bank following its 2010 corruption scandal, during which senior executives of the bank, including Chairman Sherkhan Farnood and CEO Khalilullah Ferozi, schemed to steal almost $1 billion through money laundering and fraudulent lending on behalf of politically connected shareholders—including Mahmoud Karzai, the current Acting Minister of Urban Development and Land, and brother of former President Hamid Karzai.[617] The meltdown of Afghanistan's largest private bank, which at the time held 34% of the country's total banking assets (three times the assets of its closest competitor) and was used to pay government salaries, severely stressed the economy. It resulted in a $500 million run on the bank and eventually required an $825 million bailout, equivalent to approximately 5–6% of Afghanistan's GDP at the time.[618] Overall, as of August 20, 2020, $587.26 million—or 59.5% of the total amount of stolen funds ($987.0 million)—remains unrecovered by the Afghan government.[619]

The New Kabul Bank/Bank-e-Millie Afghan merger comes as Da Afghanistan Bank (DAB), Afghanistan's central bank, is taking measures to mitigate COVID-related shocks to the banking sector, including the monitoring of weaker banks, a reduction in banks' operational costs, and suspension of administrative penalties and fees.[620] Under pressure from the pandemic-induced economic decline, total bank deposits have contracted this year as business firms increasingly draw upon their accounts in the face of declining revenues, exacerbating the banking sector's vulnerability.[621]

On September 28, 2020, the World Bank approved a $100 million grant to DAB and the Ministry of Finance to help stabilize Afghanistan's financial sector as it works to recover from COVID-19 and improve access to finance for micro, small, and medium enterprises.[622] Even before the pandemic, Afghanistan's small banking sector was severely limited in its ability to finance private investment and support economic growth. With an economy heavily reliant on the informal sector—85% of Afghan adults lack access to formal financial services—DAB estimates that only 3.9% of businesses rely on banks to finance capital expenses, with 0.8% using banks to finance investments due to both demand and supply constraints. Those constraints include high interest rates and collateral requirements, lack of expertise, and limited access in rural areas.[623]

Afghan Government Increasing International Trade Links to Combat Economic Slowdown

In recent years, Afghanistan, with the support of international donors, has worked to integrate its economy into regional trading networks and transit routes to help bolster domestic economic growth, such as "the Lapis

Lazuli Corridor," which opened in December 2018 connecting Afghanistan to European markets by way of Turkmenistan, Azerbaijan, Georgia, and Turkey. In July 2020, the UNDP projected that increasing regional trade could help to mitigate the negative economic impact of COVID-19 within Afghanistan.[624]

Afghan government officials have met with leaders of neighboring countries this quarter to increase economic cooperation and have prioritized increased linkages to international trade routes to bolster the country's sluggish economic growth. Recent activities have included opening border crossings with Pakistan; forming a trilateral commission on economic cooperation between Afghanistan, Iran, and Turkmenistan; continuing development of the maritime route through Chabahar Port; and expanding regional railway linkages and air corridors.[625]

Afghanistan–Pakistan

Since the spring lockdown, Afghan and Pakistani officials have worked to reopen their border crossings for trade, including the September 16 opening of a new trade terminal at Badini southwest of Quetta on Balochistan's border with Kandahar.[626] In late July 2020, Pakistan's Gwadar Port on Balochistan's Arabian coast also began to be used for Afghan-bound trade goods, with a consignment of bulk cargo from UAE.[627] Yet, there continue to be reports of significant shipping delays for Pakistani imports, inhibiting cross-border trade and the recovery of customs revenue for the Afghan government. In early September 2020, it was estimated that nearly 15,000 shipping containers had piled up at various points along the trading network between ports in Karachi and Afghanistan-Pakistan border crossings due to reports of administrative delays, mismanagement of customs procedures, and corruption.[628]

With Afghanistan and Pakistan working to reopen their borders to trade in recent months, Pakistan's Federal Board of Revenue increased the required percentage of containers needing to be scanned from 10%, prior to the pandemic, to 100%, without also increasing the limited scanning capacity at the border crossings. This has led to severe shipping delays, compounded by the backlog of Afghan-bound goods that continued to arrive in Pakistani ports during the border closures.[629] There also continue to be media reports of corruption at checkpoints near the border, further inhibiting cross-border traffic.[630]

Afghanistan–Iran

Regional governments have highlighted the development of Iran's Chabahar Port and attached railway network, developed jointly with India, as a potentially significant boon to the Afghan economy by increasing access to international maritime trade. For this reason, the State Department exempted Chabahar from U.S. economic sanctions leveled against Iran

Afghanistan-Pakistan Border Crossings Reopen, Yet Tensions Flare

Amid COVID-19, the Afghan and Pakistani governments have worked to reopen border crossings to trade. Many were closed in March 2020 as a public-health measure. By early July 2020, five border crossings were open for commercial trucks engaging in trade, helping the Afghan government begin to recover customs revenue lost in the previous quarter.

Some border crossings remained largely closed to travelers and laborers, despite local communities on both sides depending on cross-border economic activity. In late July, protests erupted on the Pakistani side of the Chaman border crossing linking Pakistan's Balochistan Province with Kandahar to force the government to resume all normal traffic. On July 30, there were reports of the Pakistani military opening fire to disperse the protestors. While Pakistani officials stated that shots were only fired into the air to maintain order, Afghan officials claimed that Pakistani artillery fired into Afghanistan, killing 15 civilians and displacing hundreds within local villages fleeing the shelling. This incident came just over a week after clashes between Afghan and Pakistani forces in Kunar Province with Pakistani mortar attacks killing at least eight civilians, according to Afghan officials.

In response, the Chaman border crossing was closed and Afghan troops stationed at the border were ordered into a state of readiness to "retaliate" against Pakistani forces "in kind." Following talks between Afghan and Pakistani officials, the border was reopened to trade on August 12, and was fully opened to both trade and pedestrian traffic on August 22.

Source: New York Times, Tairmoor Shah and Mujib Mashal, "Border Clashes With Pakistan Leave 15 Afghan Civilians Dead, Officials Say," 7/31/2020; TOLOnews, "8 Civilians Killed in Pakistani Mortar Attack on Kunar: Officials," 7/16/2020; Daily Times, "Pakistan fully opens Chaman border after five months closure," 8/22/2020.

in November 2018.[631] Since the first phase of its operations was inaugurated in December 2017 and despite various challenges related to the management of the port facilities, the port's economic activity has steadily increased over the first two years of operations, with over half a million tons of cargo moving through the port.[632]

As of August 2020, according to the Director-General of Ports and Maritime Organizations of Iran's Sistan-Baluchestan Province, 23% of this cargo was destined for Afghanistan.[633] Over the previous two quarters, as Afghanistan struggled with COVID-19, these shipments included over 53,000 tons of wheat, out of a promised 75,000 tons, gifted to Afghanistan by the Indian government.[634] However, according to State, the use of Chabahar Port for trade with Afghanistan has not increased as a result of the border closures with Pakistan. Despite the waiver for trade through Chabahar Port, Afghan traders report that insurance companies, banks, and other business service providers refuse to operate through the port for fear of U.S. sanctions against Iran.[635]

To further facilitate trade with Iran, Afghanistan also has continued work on the approximately 220 kilometer Khaf-Herat rail line (around 140 kilometers are in Afghanistan), linking Afghanistan and Iran. Project construction began in fiscal year 2007–2008; it was expected to become operational in fall 2020. Iranian officials said the new rail link and border crossing will reduce transit costs and speed up the collection and delivery of goods traveling between Afghanistan and Iran.[636]

Afghanistan's Unsustainable Trade Deficits

Afghanistan's economy remains highly dependent on imports, generating a severe trade deficit that is almost entirely financed through external aid.[637] The Afghan Ministry of Industry and Commerce explains, "the Islamic Republic of Afghanistan's industries have been devastated by more than three decades of civil strife and war that left many factories, and even much of the cottage industry, inoperative or struggling to compete even in the domestic market, thereby contributing to the unsustainably high trade deficit."[638]

In 2018, for instance, Afghanistan imported goods totaling $7.4 billion while only exporting $875 million worth of goods, a negative trade balance of $6.5 billion or 32.7% of GDP. This is in part due to Afghanistan's low manufacturing capacity and poor domestic infrastructure, which results in a narrow export base, largely agricultural products and carpets, to limited destination markets.[639] The Afghan government's failure to improve formal business conditions and governance within the country also has limited the economy's domestic output and long-term growth. As such, Afghan citizens supplement income and consumption needs through imported goods, service imports, and remittances. Afghanistan's National Trade Policy for 2019–2023 acknowledges, "With regard to imports, for many businesses in the Islamic Republic of Afghanistan, imported capital goods and inputs are essential to maintain production and competitiveness. In view of this, apart from exceptional cases, the country will maintain an open trade regime without creating non-tariff barriers to imports."[640] Increasing links and ease of access with regional and international trade routes could have immense benefits for the Afghan economy. Yet, unless effective efforts are simultaneously made to address the private sector's trade disadvantages and shift demand away from imported goods to domestic production, easing cross-border trade could also potentially exacerbate the existing trade deficit, especially if neighboring countries seek to increase exports to Afghanistan in order to offset economic losses caused by COVID-19.

NATO Eyes Full Transfer of International Airports to Afghan Government

On August 16, 2020, the Afghan Civil Aviation Authority (ACAA) announced that it would soon take full responsibility for Afghanistan's four international airports in Kabul, Kandahar, Herat, and Mazar-e Sharif, currently controlled jointly with NATO. NATO plans to hand over the airports to the Afghan government by May 2021, State informed SIGAR this quarter, but the precise timing remains under review by NATO and the Afghan government.[641] General Director Qasem Wafayezad of the ACAA, however, recognized that the Afghan government faces a number of ongoing capacity and training issues, presenting challenges to complete this transfer.[642]

An insufficient number of properly trained personnel and other capacity problems have long challenged Afghanistan's civil aviation sector. Given the importance of effective airspace management for military efforts, the U.S. government provided technical assistance and financial support for civil aviation, disbursing over $562 million in civil aviation-related activities between 2002 and 2015. During this time, NATO also took responsibility for vital civil aviation functions, including air traffic control; fire, crash, and

100 USAID-provided ventilators arrive at Hamid Karzai International Airport. (USAID photo) rescue; meteorology; communication, navigation, and surveillance; and airport safety management.[643] The Afghan government formed the Afghanistan Civil Aviation Authority (ACAA) in 2012 with the responsibility to develop and operate all of Afghanistan's airports and drafting civil aviation policies and regulations.

While the U.S. government intended to transfer management of Afghanistan's civil aviation to the Afghan government at the end of 2014 with the drawdown of U.S. forces, the transfer was delayed by a year in part due to the lack of certified air traffic controllers, according to a 2015 SIGAR audit.[644] Additionally, following the delay, the Afghan government failed to award an airspace management contract, citing high prices, which required State to fund an interim DOD-managed contract through September 2015 for $29.5 million to avoid air service interruptions.[645] SIGAR's 2015 civil aviation audit further found that the Afghan government failed to use all of its overflight revenue for airspace management, despite pledging to do so, which contributed to the Afghan's inability to independently manage civil aviation operations.[646]

In 2015, the U.S. government transferred control of airspace management to the ACAA, but NATO's Resolute Support continued to shoulder key civil aviation responsibilities at Afghanistan's international airports. In recognition of the important role an effective civil aviation authority and airports play in facilitating economic growth, USAID has provided approximately $6.1 million since 2015 to support ACAA capacity building and strengthen air-cargo infrastructure and export processes at the Hamid Karzai International Airport.[647]

In July 2019, SIGAR reported that external donor support improved ACAA operations through better training regimes that allowed ACAA to conduct limited operations at the four international airports. However, as SIGAR also observed, ACAA "is not currently capable of conducting civil aviation operations without donor support, including technical, training, and financial assistance—all of which were also identified as shortfalls in our 2015 audit."[648] SIGAR's 2019 report concluded, "Although capacity development and increased revenues appear to have put the ACAA on a path toward civilian aviation independence, the ACAA has yet to demonstrate its capacity to assume control over the five essential aviation functions (Air Traffic Control; Fire Crash and Rescue; Safety Management Office; Meteorological Service; and Communication Navigation and Surveillance)."[649] In the 2019 report, the ACAA director general further noted that the ACAA remains roughly two to three years away from building the necessary personnel, financial, and regulatory capacity to independently shoulder all civil aviation responsibilities within Afghanistan.[650]

Fiscal Update: Revenues Begin to Recover But Remain Below Previous Year's

Afghanistan's sustainable domestic revenues contracted by 17.2% over the first three quarters of 2020 as compared to the same period of the previous year, reflecting the fallout from the pandemic.[651] Beginning in March 2020, customs revenues dropped "to close to zero for several months," State said.[652] Since the lockdown was eased in July 2020 and the country's borders were reopened to trade, government revenues have started to modestly recover from a drastic decline during the second quarter. Despite this recovery, revenue generation remains below last year's level. According to State, the Afghan government expects tax revenue to contract by $715 million to $1.99 billion in 2020, 26% shy of the $2.7 billion in revenues that were projected before the emergence of COVID-19.[653]

Among revenue categories, customs revenues—on which the Afghan government normally relies for approximately one-fifth of its domestically generated income—are uniquely vulnerable to border closures.[654] Following the border closings to halt the spread of COVID-19, customs revenues dropped by 54.2% from Month 3 (February 20–March 19, 2020) to Month 4 (March 20–April 19, 2020) of the Afghan fiscal year, according to publicly available data from the Afghanistan Revenue Department.[655] From Month 5 (April 20–May 19, 2020) to Month 6 (May 20–June 19, 2020), customs collection increased by 40.4% as cross-border trade began to resume.[656] Yet, customs revenues over the first nine months of 2020 remained 41.3% below the same period during the previous year.[657]

Figure 3.35, on the following page, shows the decline in cumulative sustainable revenues through Month 9 of FY 1399. Expenditures over the first nine months of 2020 (Figure 3.36, on the following page) also decreased overall by 0.7%, in part due to restricted government activity during the lockdown, according to the MOF.

ECONOMIC GROWTH

Through its current strategy, USAID economic growth programs seek to support and enhance export-led growth within Afghanistan's private sector.[658] Specifically, the strategy aims to:[659]

- strengthen trade connections between Afghanistan and neighboring countries
- increase the competitiveness of Afghan private industry by supporting export-ready firms
- create jobs via that firm-level support and by improving the enabling environment for businesses

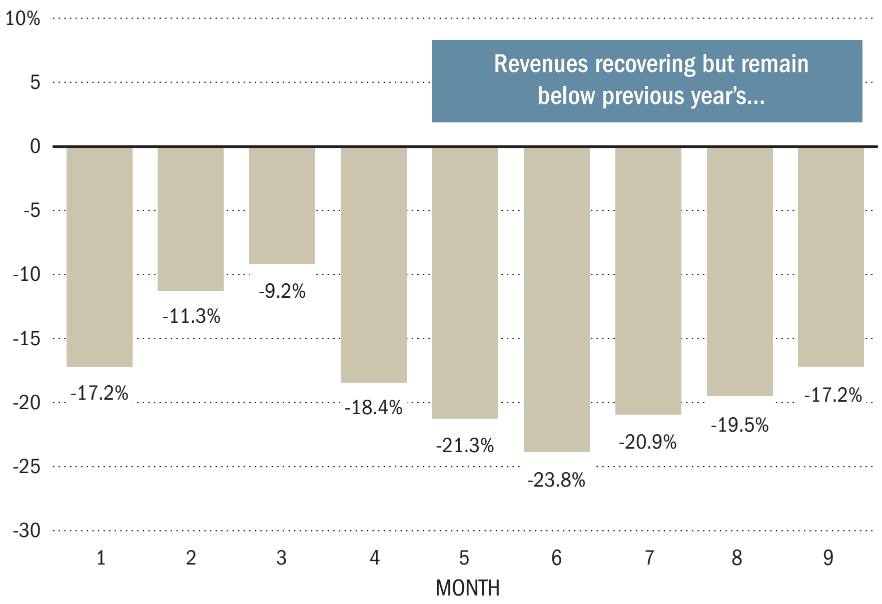
SIGAR EVALUATION REPORT

In August 2020, SIGAR's Office of Special Projects released a review report of the Kabul Center Export Center (KCEC). The KCEC project was funded by USAID's Afghanistan Job Creation Program with a $9.4 million grant awarded to Impact Carpet Associates in June 2018 to establish the export center. The KCEC's purpose is to help bolster exports of Afghan carpets and create jobs through addressing three main problems within the carpet industry: (1) burdensome processes to airfreight carpets from Afghanistan, (2) a lack of access to export financing, and (3) the absence of a direct linkage and Web-based market for overseas wholesale buyers. SIGAR found that KCEC is not yet fully operational, having met only four of the six requirements of the grant agreement; it has failed to integrate "e-commerce capabilities into its website" or "engage with the Afghan government to advocate for the streamlining of export regulations." Moreover, KCEC has struggled to meet sales objectives and revenue targets for both its first and second year of operations, inhibiting its ability to become self-sufficient and sustain operations when USAID funding ends in June 2021.

Source: SIGAR, "Kabul Center Export Center: Progress Made Toward Self Sufficiency But Critical Sales, Revenue and Job Creation Targets Have Not Been Met," SIGAR-20-50-SP, 8/2020.

FIGURE 3.35

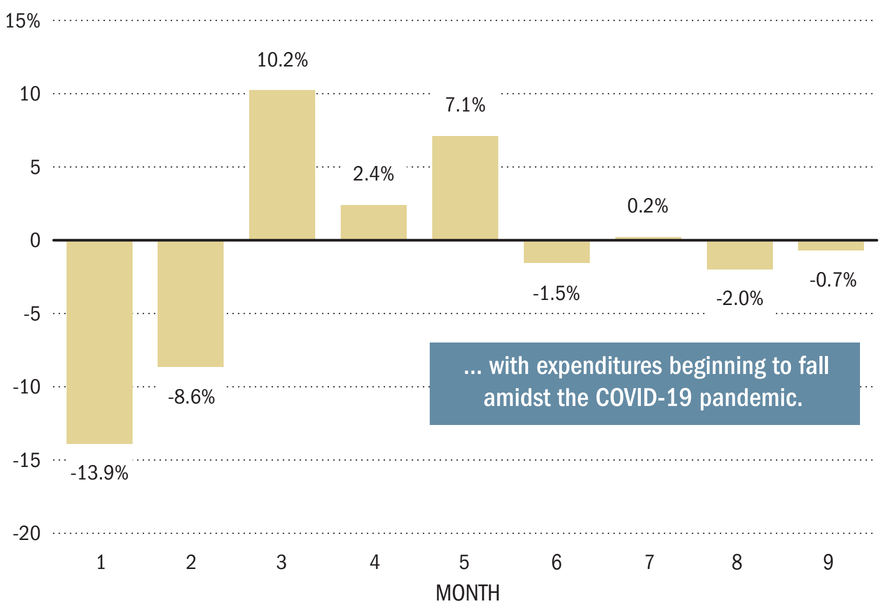
CUMULATIVE SUSTAINABLE REVENUE GAINS (FY 1398–1399) VERSUS SAME MONTH PRIOR YEAR



Source: SIGAR analysis of MOF-provided AFMIS data exported 10/13/2020 and 1/18/2020.

FIGURE 3.36

CUMULATIVE EXPENDITURE INCREASES (FY 1398–1399) VERSUS SAME MONTH PRIOR YEAR



Source: SIGAR analysis of MOF-provided AFMIS data exported 10/13/2020 and 1/18/2020.

TABLE 3.17

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS

Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 10/9/2020
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	$6,921,728	$6,216,187
The Goldozi Project	4/5/2018	4/4/2022	9,718,763	4,492,204
Livelihood Advancement for Marginalized Population (LAMP)	8/1/2018	7/31/2022	9,491,153	2,455,913
Establishing Kabul Carpet Export Center (KCEC)	6/6/2018	6/5/2021	9,416,507	5,609,637
Multi-Dimensional Legal Economic Reform Assistance (MELRA)	2/7/2018	9/30/2024	29,990,258	8,924,926
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	7,932,922
Afghanistan Competitiveness of Export-Oriented Businesses Activity (ACEBA)	1/28/2020	1/27/2025	105,722,822	3,204,841
Carpet and Jewelry Value Chains	1/31/2019	4/30/2023	9,941,606	3,041,563
Recycling Plant Value Chain in Northern Afghanistan	6/5/2019	6/4/2023	7,250,000	747,471
Afghanistan Investment Climate Reform Program (AICR)	3/27/2015	3/26/2022	13,300,000	6,851,149
Commercial Law Development Program (CLDP)	3/1/2014	9/29/2020	17,864,283	12,978,111
INVEST*	9/28/2017	9/27/2020	15,000,000	7,391,966
Afghanistan International Bank Guarantee Agreement	9/27/2012	9/27/2020	2,000,000	520,800
Development Credit Authority (DCA) with FINCA, OXUS, and First Microfinance Banks	9/25/2014	9/24/2020	1,958,000	142,100
Afghanistan Loan Portfolio Guarantee	9/27/2017	9/26/2023	665,820	732
Development Credit Authority (DCA) with Ghazanfar Bank	9/1/2018	8/30/2025	2,163,000	40,015
Total			**$259,630,146**	**$70,550,538**

Note: *INVEST is a USAID initiative to mobilize and support private capital investment in developing markets through technical assistance, networking, and capacity building.

Source: USAID, response to SIGAR data call, 10/12/2020.

However, USAID faces a number of obstacles to expand licit export growth within the timeframe set by USAID's strategy (which covers development support through 2023), particularly as a result of the COVID-19 pandemic.[660] During 2020, Afghanistan's economy is expected to experience a significant contraction, inhibiting the impact of efforts to promote future economic growth.[661] Even before the pandemic took hold, Afghanistan's licit economic growth was too low to reduce the increasing poverty rates and improve living standards for most Afghans.[662] Moreover, licit export levels stagnated in 2019, even though the Afghan government covers a majority of transit costs for exports through subsidized air corridors to incentivize trade within the region.[663] The pandemic has exacerbated these challenges, along with uncertainty about the outcome of the peace process and the level of future donor support.

USAID's active economic-growth programs have a total estimated cost of $259.6 million and can be found in Table 3.17.

COVID-19 Continues to Impact USAID's Economic Growth Programs

While USAID has been engaged in a number of economic growth projects to promote export competitiveness and market linkages for Afghan businesses, USAID has been forced to adapt or limit project activities due to the COVID-19 pandemic, such as modifying agreements with partner organizations to account for changes in operating capacities.[664] USAID also said lockdown restrictions had reduced coordination with stakeholders and depressed procurement processes, with wide ramifications for projects' operations.[665]

The Afghanistan Competitiveness of Export-Oriented Businesses (ACEBA) program was started in January 2020 to strengthen the value chains of export goods as well as facilitate access to finance and connections with international buyers. Under the lockdown and travel restrictions, however, ACEBA has been unable to engage directly with workforce beneficiaries and Afghan exporters, and has faced delays in setting up operations and staff onboarding, according to the project's latest quarterly report (covering April–June 2020).[666] Additionally, with many international road shows cancelled due to the pandemic, ACEBA has been exploring alternative means to connect buyers and sellers through online trading platforms.[667] Through relying on online platforms to connect with customers largely in the United States and UK, the USAID-funded Exports, Jobs, and Market Linkages in Carpet and Jewelry Value Chains project was reportedly able to double sales for its supported jewelry businesses from the second to the third quarter of the fiscal year in spite of the pandemic, increasing the value of sales from $19,850 to $40,303.[668]

Value chain: the range of goods and services necessary for a product to move from the factory or farm to the final customer or consumer. It encompasses the provision of inputs, actual production, storage or processing, marketing, transportation, and wholesale and retail sales.

Source: USAID, response to SIGAR vetting, 4/12/2015.

Additionally, USAID's INVEST program, established to encourage and facilitate private investment in Afghanistan's economy, has adapted its programming to support the private sector in responding to COVID-19 and the resulting economic disruption. At the end of July 2020, USAID had approved plans for INVEST to:[669]

- work with female-owned clothing companies to switch production to high-quality mask production in Afghanistan
- establish a distributorship/partnership in Afghanistan with international brand(s) for a multipurpose cleaner to be made available in country
- work with the Afghan Chamber of Commerce and Investment to support drafting and disseminating COVID-19 information specific to the Afghan business community
- work on operationalizing small cold-storage solutions to promote food security in case of border closures

Amid COVID-19 Restrictions, Goldozi Project Shifts to Stand-Alone Project

The USAID-funded Goldozi Project, like other USAID programs, began the quarter with in-person activities suspended due to COVID-19. Mandatory teleworking and infections among some staff and family members prevented planned progress toward project objectives.[670] As part of USAID's Afghanistan Job Creation Program, the Goldozi Project was launched in April 2018 by implementing partner FHI 360 to support the development, sales, and marketing activities of Afghan women in the textile industry and to bolster exports of their embroidered products. Given travel restrictions and the inability for FHI 360 representatives to conduct grant-monitoring activities, the project amended the submonitoring plans to replace direct oversight to remote oversight by requiring grantees to submit weekly progress reports. With the partial lifting of the government lockdown in June, some project activities were able to resume such as in-person training in Herat and virtual Goldozi Certificate Program training for grantees in Kabul.[671]

The Goldozi Project operated under the auspices of a shared operational platform with the USAID-funded and FHI 360-managed Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project. During the third quarter of the fiscal year, while dealing with the effects of COVID-19, the Goldozi Project management learned that the IHSAN project closed following USAID's decision to move up the project end date from May 11, 2021, to September 11, 2020, as part of a transition to new health programming, as reported in SIGAR's July 2020 quarterly report.[672] The early closure of IHSAN necessitated Goldozi transition to a stand-alone project, according to its latest quarterly report (covering April–June 2020). This required developing a new Goldozi organizational chart and launching a time-consuming recruitment process for newly vacant positions in human resources, finance, grants, IT, procurement, and compliance—functions previously performed by the shared operational platform with IHSAN. During this quarter, the Goldozi Project was able to permanently fill all necessary administrative positions except the position of deputy chief of party. This transition, USAID informed SIGAR this quarter, did not have a significant impact on Goldozi activities.[673]

The Promise and Perils of the Extractives Sector

In 2010, the U.S. government estimated the total value of Afghanistan's extractives sector—consisting of a diverse array of metals, rare earths, precious and semiprecious stones, hydrocarbons, and minerals—at more than $1 trillion. The Afghan government and external donors have consistently pointed to its potential to support sustained economic growth.[674] Despite the unrealized profits from Afghanistan's vast deposits, international companies have continued to express interest in helping develop this sector. On August 6, 2020, according to a spokesperson from Afghanistan's Ministry of Mines and Petroleum (MOMP), chairman of Australia-based Fortescue Metals

Group Ltd. Andrew Forrest held a video conference call with President Ghani to discuss potential investments in iron ore and copper mines.[675]

The following month, Forrest traveled to Kabul to meet with First Vice President Amrullah Saleh and signed an agreement with the Afghan government to conduct studies of mineral resources within the country. At the request of Afghan officials, the agreement also included plans to develop hydropower and geothermal projects.[676] The Afghan government also has continued to pursue mining contracts with Afghanistan-based companies, such as a deal for exploration rights inked on April 21, 2020—with transaction advisory support from USAID's INVEST program—between the MOMP and the Afghan-owned Natural Stone Company for the Kunar-Nangarhar Marble Project and Lolanj-Parwan Travertine Project with a combined estimated value of $55 million.[677]

As in other areas of reconstruction, efforts to develop the extractives sector have been hindered by unrealistic implementation timelines and inflated expectations, sometimes shaped by an overestimation of the Afghan government's ability to provide critical enabling support.[678] Afghanistan's formal extractives sector is limited by low processing capacity, lack of reliable energy sources, and poor transportation infrastructure that raises mining costs compared to regional markets.[679] The potential for profitable mining operations, even in the formal economy, is further weakened by widespread corruption, which acts as an additional deterrent to investors in capital-intensive mining operations. Moreover, poor security conditions have severely limited the ability to develop licit supply chains within the formalized mining sector regulated by the state.

Thus, a large percentage of mining activity in Afghanistan is conducted by informal or illegal small-scale operations in both government-controlled and insurgent-controlled territory, with their products smuggled out of the country.[680] While all Afghan mineral resources are legally property of the state, the extractives sector has accounted for only around 2% of the government's sustainable domestic revenues in recent years as a result of these issues.[681] For 2017, UNDP estimated that the government could have earned an additional $123 million in royalties and export duties alone if illegal mining operations were taxed.[682] In June 2019, then-Acting Minister of Mines and Petroleum Nargis Nehan announced that her ministry had launched a countrywide survey to identify illicit mining operations as part of an effort to ban them.[683] Limited government control and rampant corruption have inhibited such efforts in the past.[684]

While the formalized extractives sector has failed to emerge as a formal driver of economic growth, the informal sector has helped finance local communities as well as antigovernment insurgency in Afghanistan. Extractives have increasingly become a key source of revenue for the Taliban, second only to narcotics. In areas under its control, the Taliban issues mining licenses, collects taxes and protection money from mining operations, and controls the smuggling of quarried minerals and gems abroad, in particular to Pakistan. A 2018 UNDP field survey in southern Helmand even found evidence of licensed mining companies paying taxes to both the Afghan government and the Taliban.[685] Estimates of the extractives-sector revenue obtained by the Taliban vary widely and are difficult to verify. In 2014, the United Nations Analytical Support and Sanctions Monitoring Team estimated that the Taliban received more than $10 million per year from 25 to 30 illegal mining operations.[686] By late 2018, according to the BBC, this number had climbed to $50 million a year, with the Taliban subsequently claiming it generates as much as $400 million annually in revenue from illegal mining.[687] In recent years, Islamic State-Khorasan has likewise increasingly relied on the exploitation of mines for revenue generation.[688]

AGRICULTURE

Licit agriculture remains the basis of Afghanistan's formal economy and one of the country's primary exports. The sector directly employs approximately 40% of Afghanistan's labor force and directly or indirectly supports an estimated 80% of the total population.[689] The country's services sector has risen in importance since reconstruction efforts began, but agriculture remains an important driver of GDP growth, and developing that sector remains a priority for external donors.[690]

Since 2002, USAID has disbursed approximately $2.3 billion to improve licit agricultural production, increase access to both domestic and international markets, and develop income alternatives to growing poppy for opium production.[691] USAID's active agriculture programs have a total estimated cost of $121.9 million and can be found in Table 3.18, on the following page. Total disbursements for State's active alternative-livelihood projects (Table 3.19, on the following page)—which aim to transition opium-poppy farmers into licit agriculture—were $109.2 million, as of September 16, 2020.

COVID-19 Poses New Hurdle for Agricultural Sector

As September 2020 approached, national and provincial government officials announced that agricultural yields have increased from the previous year for a number of key crops despite the pandemic and lockdown; for instance, saffron yields around the country are up 10% and the Helmand pomegranate harvest is up 16%.[692] Despite this increase in yield, farmers and agribusinesses have reported difficulties in finding markets for their agricultural goods due to the pandemic-induced economic downturn and border closures.

In its latest quarterly report (covering April–June 2020), USAID's Agriculture Marketing Program (AMP), which was established in February 2020 to help increase Afghanistan's agricultural exports, noted that among its 53 agribusiness partners, 43% anticipated their export volumes to drop 50 to 75% and one-third expected their exports to decline 75% during 2020.[693]

An Afghan farmer surveys his pomegranate harvest. (USAID photo)

TABLE 3.18

USAID ACTIVE AGRICULTURE PROGRAMS

Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 10/9/2020
Afghanistan Value Chains–Livestock	6/9/2018	6/8/2021	$55,672,170	$17,535,237
Afghanistan Value Chains–High Value Crops	8/2/2018	8/1/2023	54,958,860	16,117,674
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	3,193,158
Agricultural Marketing Program (AMP)	1/28/2020	1/27/2023	30,000,000	2,893,042
RADP East (Regional Agriculture Development Program–East)	7/21/2016	7/20/2021	28,126,111	19,976,207
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	87,905,437	33,190,156
Promoting Value Chain–West	9/20/2017	6/30/2021	19,000,000	15,000,963
USDA PAPA	9/30/2016	9/29/2021	12,567,804	85,387
SERVIR	10/01/2015	9/30/2020	3,100,000	2,660,518
Grain Research and Innovation (GRAIN)	11/8/2012	9/30/2022	19,500,000	11,273,841
Total			**$318,830,382**	**$121,926,187**

Source: USAID, response to SIGAR data call, 10/12/2020.

TABLE 3.19

STATE-INL ACTIVE ALTERNATIVE-DEVELOPMENT PROJECTS

Project Title	Start Date	End Date	Obligated and Disbursed, Cumulative, as of 9/16/2020
Community-Based Agriculture and Alternative Development (CBARD) West	9/1/2016	4/30/22	$24,368,607
Community-Based Agriculture and Alternative Development (CBARD) East	11/11/17	4/30/22	22,128,683
Community-Based Agriculture and Alternative Development - Access to International Market (CBARD-AIM)	7/30/19	4/30/23	8,900,000
Community-Based Agriculture and Rural Development - Access to Licit Livelihoods (CBARD-ALL)	8/25/20	5/25/25	30,000,000
Boost Alternative Development Intervention Through Licit Livelihoods (BADILL)	8/12/16	12/30/21	20,000,000
Monitoring and Impact Assessment of High-Value Agricultural Based Interventions	8/30/16	12/30/22	3,810,530
Total			**$109,207,820**

Source: State, INL, response to SIGAR data call, 9/16/2020.

Given the economic contraction, agribusinesses supported by the AMP also reported that hiring had turned negative due to the pandemic, as well as reporting their failure to meet a number of other target goals due to the cancellation of trainings and other project activities.[694]

COVID-19, however, is just the latest hurdle facing the development of the licit agricultural sector in Afghanistan. Farmers have struggled with the knock-on effects of four decades of war, such as the prevalence of landmines, damaged irrigation systems and agricultural lands, and soil contamination from munitions, as well as limited or improper irrigation systems and poor management of resources. In recent years, farmers have increasingly had to grapple with the impact of increasing incidents of extreme weather, including devastating droughts and flooding.[695] According to the Afghan Ministry of Energy and Water, increasing temperatures combined with more frequent droughts have led to less rain and snow, which aggravates increasing evaporation of water sources. As a result, water levels in recent years have dropped by approximately 10 billion cubic meters, driving desertification in the country and making irrigation of agricultural land even more difficult.[696] USAID's current Country Development Cooperation Strategy for Afghanistan (covering FY 2019–2023) highlights these risks associated with climate change as "climate change-driven challenges generate deep food insecurity, especially when compounded by food transport problems from poorly maintained or flood-damaged roads and adverse conditions at border crossings." These "climate change-driven challenges," USAID adds, have "far-reaching economic effects because Afghanistan's economy remains primarily agricultural" and "can impact the success of USAID's projects."[697]

In 2018, the country experienced its worst drought in a decade, pushing an additional two million people into food insecurity and displacing more people than the fighting between government forces and the Taliban. As a result of the drought, Afghanistan's agricultural output dropped by 45% during 2018, according to officials at the Afghan Ministry of Agriculture.[698] Land degradation and topsoil erosion, driven by a combination of climate change, poor environmental management, and conflict, also increase the likelihood of flash flooding, which further devastates agricultural lands. In late August 2020, for example, heavy rains led to flash flooding in Parwan Province that killed over 100 people, destroyed about 300 homes, and ruined hundreds of acres of agricultural land.[699]

As a result, domestic agricultural production has been unable to meet the rising domestic demand for key crops such as wheat. To meet this shortfall, the Afghan government must rely on agricultural imports. In 2018, for example, Afghanistan imported $477 million of wheat, primarily from Kazakhstan, Pakistan, and Uzbekistan.[700]

While donors continue to support developing licit Afghan agriculture in an increasingly difficult environment, illicit opium-poppy cultivation has thrived, remaining the country's largest cash crop despite past counternarcotic efforts to eradicate the crop and provide incentives to engage in licit agricultural production. With poppy requiring only one-fifth to one-sixth of the water required for many licit crops such as wheat, the rising prevalence of drought has helped push some farmers to rely on planting poppy.[701] Other agricultural products, such as pomegranate or apricot trees, also require a large up-front investment but can take as long as three years after planting before producing a harvestable fruit.[702]

Given security-related challenges and on-going political instability which make long-term investments and planning difficult, poppy cultivation—which only requires a single growing season, can fetch a higher price, and can garner advance payments—is a more economically attractive option for a number of farmers.[703] According to the Afghanistan Research and Evaluation Unit, a Kabul-based think tank, as many as 507,000 Afghans worked in the opium economy in 2018, including indirect employment, making the drug trade one of Afghanistan's largest employers.[704] In recent years, the opium trade has had an estimated annual export value of $1.5 billion to $3 billion and serves as an important source of revenue for the Taliban.[705]

COVID-19 Is Reportedly Pushing Afghans to Cultivate Poppy

Since the Afghan government instituted a lockdown in March 2020, Agence France-Presse and Radio Free Afghanistan have reported that increasing unemployment paired with increasing food prices have pushed a number of Afghans to turn to poppy cultivation to weather the economic contraction. In interviews with both news outlets, Afghan workers in Kandahar, Uruzgan, and Nangarhar Provinces who had been laid off due to the pandemic explained that they were unable to find alternative employment and were forced to work in poppy fields to support their families "out of extreme desperation." With the closure of schools, a number of students also reportedly found temporary employment in poppy fields to make quick cash. Rural farmers reported that they had not received any subsidies or financial assistance from the government, "which leaves poppy cultivation as our only means to survive."

Source: Mohammad Sadiq Rashtinai and Abubakar Siddique, "Afghan Farmers Return to Poppy Fields Amid Coronavirus Pandemic," Gandhara, 5/7/2020; Noorullah Shirzada and Rasheed Durrani, "Crushed by virus and war, jobless Afghans turn to opium for cash," Agence France-Presse, 8/28/2020.

U.S. Agriculture Programs Continued Despite Lockdown, But Monitoring Has Been a Challenge

USAID and State INL both reported that their agriculture and alternative-livelihood program activities have continued despite disruptions from the pandemic, including office closures and a number of staff falling ill, with many projects switching to online training and virtual engagement with key intermediaries.[706] State INL informed SIGAR that the switch to virtual trainings has had "varying levels of success to date," due to connectivity and bandwidth issues and sporadic electrical service.[707] Beginning in June, when the lockdown began to ease, some in-person activities resumed. However, due to travel restrictions, a number of programs were limited in their ability to conduct live site visits to directly monitor ongoing program activities.

USAID's AMP, for instance, reported relying on beneficiaries to provide data to program staff and verifying the data through online questionnaires and phone calls.[708] USAID's Grain and Research Innovation (GRAIN) project, supporting development of the wheat crop in Afghanistan, was able to conduct a mixture of in-person visits to trial sites (25 visits to 19 sites) and monitoring of online trainings and other remote monitoring activities, including the use of Skype videoconferencing. Program participants noted, however, that weak internet connectivity was a challenge to virtual activity.[709] Similarly, USAID's Strengthening Watershed and Irrigation Management (SWIM) project—whose aim is to rehabilitate irrigation canals and watersheds and improve water resource management to increase the sustainability and productivity of the agricultural sector—relied on both in-person visits and remote monitoring of canal-rehabilitation sites, with project staff reporting 93 in-person and virtual site visits during the previous quarter.

For remote monitoring, according to the SWIM project's latest quarterly report (covering April–June 2020), the Monitoring and Evaluation team collected information, such as narrative descriptions and photographs, from site engineers which is then verified with various stakeholders.[710] State INL reported that the verification of data collected by third-party monitors for its alternative-livelihood programs has similarly been affected by the reduction of onsite visits due to the pandemic.[711] The challenge of directly monitoring program activities and verifying program data is a concern that predates COVID-19, in part due to security-related restrictions on movement.[712]

INFRASTRUCTURE AND ESSENTIAL SERVICES

A major goal of the U.S.-led reconstruction effort has been to provide Afghanistan with a physical infrastructure base, with the purpose of supporting economic development, bolstering stability in the country and confidence in the government. Since 2002, the U.S. government has built and expanded electricity infrastructure, bridges and roads, urban water access, and education and health facilities.[713] USAID alone has disbursed more than $4.5 billion for infrastructure projects.[714]

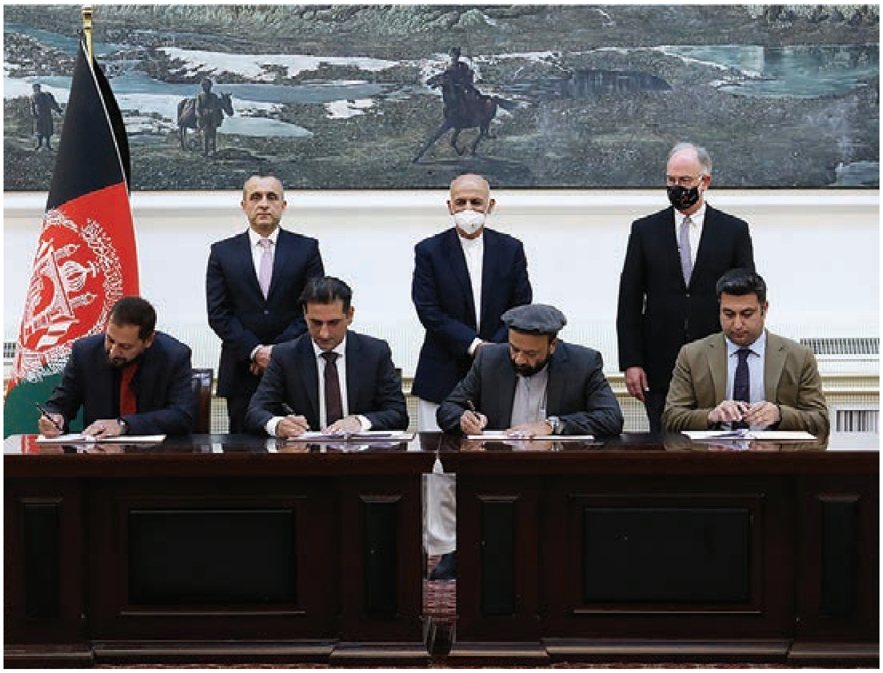
USAID is still working to complete several large capital projects involving the construction of transmission lines and substations—legacy projects underpinned by the assumption that the best way to expand electricity access in Afghanistan was to build a nationwide power grid.[715] In more recent years, however, the U.S. reconstruction focus has shifted away from large capital projects like roads and transmission lines toward smaller-scale projects, including solar and wind power plants. To incentivize more private-sector investments in the energy sector, in line with the broader U.S. economic strategy, USAID has subsidized the upfront costs of constructing solar and wind power plants for independent power producers (IPPs).

In late September 2020, Afghanistan's national power utility Da Afghanistan Breshna Sherkat (DABS) signed deals for four public-private partnership energy projects with private investors representing $160 million in investment, which will be jointly funded by USAID. The solar and wind power plants are anticipated to add around 110 MW of capacity to the national grid over the next 18 to 27 months. At the signing ceremony in the Presidential Palace in Kabul, U.S. Charge d'Affaires Ross Wilson said the projects represent "our interest in a strong private sector that can further drive opportunities, prosperity and growth in this country." President

SIGAR INSPECTION REPORT

In a September 2020 report, SIGAR released the inspection results of 25 (out of a total of 72) drip-irrigation plots constructed by USAID's SWIM project, at a cost of $1,049 per plot. SIGAR found that of the 25 inspected plots installed in 2017 and 2018, 23 were not being used as intended or were no longer installed. Farmers had dismantled the drip-irrigation piping and other components due to a lack of water, damaged parts, lack of generators to pump water into the water tank, or nonfunctioning systems. SIGAR attributed this to a lack of effective monitoring. According to project implementer DT Global, there were no post-installation site visits conducted for plots installed during 2017 and 2018 and therefore, USAID was unaware that the installed plots were not functioning. Post-installation site visits occurred only after USAID requested them beginning in September 2019.

Source: SIGAR, "USAID's Afghanistan Drip Irrigation Demonstration Project: Most Demonstration Plots that SIGAR Inspected Were Not Being Used as Intended," SIGAR-20-53-SP, 9/2020.



Private investors sign deals for four public-private partnership energy projects with Afghanistan's national utility, Da Afghanistan Breshna Sherkat, in September 2020. (USAID photo)

Ghani added, "Without reliable, affordable energy we cannot become an exporting country."[716]

The profitability and commercial viability of such projects is premised on power-purchase agreements (PPA) with DABS that allow IPPs to recover their upfront costs for construction.[717] The impact of COVID-19 on DABS' short-term financial stability demonstrates the utility's vulnerability to short-term external economic shocks. As a result of the lockdown instituted in March, DABS' revenue dropped by 60% compared to the same period of the previous year, resulting in "unprecedented cash-flow problems," USAID informed SIGAR. Following this drop, DABS warned that it expected to run out of cash by June 2020, leaving it unable to pay for operational costs. This required $71 million in immediate and phased cash support from the government to help the utility to return to normal operations.[718] With international donors currently financing more than half the Afghan government budget and 75% of total public expenditures, DABS's long-term financial stability is tied to either a continuation of the current level of donor assistance or the Afghan government's ability to generate far greater domestic revenues—both areas of great uncertainty in the coming years.[719]

SIGAR OVERSIGHT OF AFGHANISTAN'S ENERGY SECTOR

Given the U.S. government's significant investment in Afghanistan's energy sector and the importance of available, reliable power to support the overall success of the reconstruction effort, SIGAR has focused a considerable portion of its oversight portfolio on projects and programs in the sector. An ongoing SIGAR audit is examining the entirety of the U.S. investment in the Afghan energy sector, including efforts to improve generation, transmission, and distribution. Additionally, SIGAR has a number of ongoing inspections of key energy infrastructure projects examining whether construction was completed in accordance with requirements and whether the constructed infrastructure is being used as intended and maintained.

Tajikistan's Cuts to Electricity Exports Highlight Inadequacy of Afghanistan's Power Grid

On July 27, 2020, DABS announced that Tajikistan had cut electricity exports to Afghanistan from energy associated with 450 MW of generating capacity to a level associated with only 40 MW of capacity. Tajik officials said the cut was caused by a reduction in water resources for their hydroelectric power plants.[720] Shortly after, DABS announced that Uzbekistan agreed to increase its power exports with energy from an additional 200 MW of electric capacity and, a month later, signed a 10-year contract with the Uzbek government for imported power.[721] In late September 2020, ADB approved a $110 million grant to finance the construction of 201 km of new transmission lines connecting the Uzbek and Afghan power systems in support of the 10-year agreement between the two countries.[722]

Afghanistan's domestic energy consumption is heavily reliant on imported power from neighboring countries, given the inability to generate sufficient electricity. According to data provided by Afghanistan Inter-Ministerial Commission for Energy, Afghanistan's total installed capacity for domestic power production is approximately 699 MW: 280.5 MW of hydroelectric power, 353.5 MW of thermal/oil plants, and 65 MW from renewable energy.[723] The Afghan Ministry of Water and Energy, however, estimates that Afghanistan requires at least 2,000 MW of electric capacity to meet the economy's power needs.[724] To address shortfalls in domestic power production, the Afghan government spends approximately $280 million annually to import electricity from roughly 670 MW of generating capacity in neighboring Iran, Uzbekistan, Tajikistan, and Turkmenistan.[725]

While Afghans' access to the power grid has increased since 2002, only approximately 30% of the population currently has access to grid-based power. Limited access to reliable, grid-based power remains a contributing factor to Afghanistan's sluggish economic growth. Therefore, a top U.S. development priority has been to build out and improve two of Afghanistan's major power grids, which are currently "islanded," or unconnected. Specifically, DOD and USAID have been working to connect the country's Northeast Power System, (NEPS) with its southeastern counterpart, the Southeast Power System (SEPS). A 470-kilometer transmission line constructed by USAID will eventually link them. The fragmented nature of Afghanistan's power sector presents a number of technical challenges to establishing this link, such as synchronization. Islanded power grids rely on different supply sources, including imported power, and therefore generate electricity at different speeds and frequencies. DABS is responsible for working with neighboring countries to match (or synchronize) imported power with domestically generated power before electricity can safely flow from NEPS to SEPS once the connection is established.

NEPS: imports electricity from Central Asia to provide power to Kabul and the communities north of Kabul.

SEPS: draws most of its power from the Kajaki Dam and from diesel generators in Kandahar City to provide power in the Helmand and Kandahar areas.

Source: DOD, Report on Progress Toward Security and Stability in Afghanistan, 11/2013, p. 107.

Some Remaining USAID Power-Infrastructure Projects Continue to Face Delays

USAID has five ongoing power-infrastructure projects; DOD's projects are complete. Current USAID projects include the construction of:[726]

- a transmission line between Ghazni and Kandahar Provinces (84.8% complete, with an expected completion date of December 31, 2020)
- substations along the transmission line from Ghazni to Kandahar (35.67% complete, with an expected completion date of July 30, 2023)
- transmission lines and substations in SEPS (expected completion date of July 30, 2023, but still in the design phase, which was previously delayed due to COVID-19 lockdowns in India, USAID said)
- a wind farm in Herat Province (no completion date established as the Notice to Proceed is pending the finalization of a PPA with DABS, but at least two years away)
- a floating solar power plant to be constructed on the Naghlu Dam Reservoir in Kabul Province (no completion date established as the Notice to Proceed is pending the finalization of a PPA with DABS, but at least one-and-a-half years away)

Three of USAID's five active projects are delayed.[727] The transmission line and substations between Ghazni and Kandahar, for instance, were originally supposed to be complete by the end of 2016—meaning they are almost four years behind schedule.[728] USAID's work on SEPS evolved from a separate contract that was originally supposed to be complete by November 2013—meaning it is now almost seven years behind schedule.[729]

TABLE 3.20

USAID ACTIVE ENERGY PROJECTS

Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 10/9/2020
Design and Acquisition of SEPS Completion and NEPS-SEPS Connector	3/7/2018	6/27/2022	$20,151,240	$6,535,851
Design and Construct of SEPS Completion and NEPS-SEPS Connector Substations	7/3/2019	7/30/2023	159,794,733	57,403,195
Spare Parts for Tarakhil Power Plant	8/14/2019	10/30/2020	2,136,850	2,099,597
25 MW Wind Farm in Herat Province	10/22/2019	12/24/2021	22,994,029	0
20 MW Floating Solar Installation-Naghlu	1/27/2020	7/26/2021	16,100,000	0
Energy Loss Management Visualization Platform Activity	1/25/2020	1/24/2022	1,579,973	473,991
Engineering Support Program	7/23/2016	1/22/2022	125,000,000	83,861,290
PEER grants	7/25/2011	7/23/2021	5,440,647	5,440,646
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2023	316,713,724	266,806,323
Contribution to AITF (Afghanistan Infrastructure Trust Fund)	3/7/2013	3/6/2023	153,670,184	153,670,184
Total			**$823,581,380**	**$576,291,079**

Source: USAID, response to SIGAR data call, 10/12/2020.

Cumulatively, USAID has disbursed approximately $2 billion since 2002 to build power plants, substations, and transmission lines, and to provide technical assistance in the power sector.[730] USAID's active power-infrastructure projects have a total estimated cost of $828.6 million and are presented in Table 3.20.

EDUCATION

Progress in Afghanistan's education sector, and particularly female access to education, has been held up as a significant achievement of U.S. reconstruction efforts.[731] Millions more Afghan children attend school today compared to the number under the Taliban, which generally banned girls from attending.[732] However, such progress is not uniform across the country with continued violence and political instability in the country limiting the access of students, especially females, to education. In September 2020, for instance, the Afghanistan Independent Human Rights Commission found that 68.6% of eligible girls in Ghazni Province and 45.4% of eligible girls in Faryab Province do not attend school.[733] Moreover, during a September 22, 2020, hearing of the House Oversight Committee's Subcommittee on National Security with Ambassador Khalilzad, members of Congress raised concerns over the uncertain future of female education and women's rights in Afghanistan as intra-Afghan negotiations between the government and Taliban began in Doha.[734]

Afghan girls learning how to read in primary school. (USAID photo)

Currently, USAID aims to increase access to, and improve the quality of, basic education for children while also building the management capacity at the Ministry of Education (MOE).[735] USAID's strategy is premised on the understanding that advancing the education sector will spur greater confidence in the Afghan government, ultimately making the country more stable, and serves as a long-term investment in human capital for the Afghan economy.[736]

But poor data quality, lack of effective oversight, and limited government control within the country make it difficult to determine fully the level of this success, with Afghan government-run education services provided in areas under Taliban control and figures for the number of students in school over time disputed.[737] Additionally, Afghanistan's MOE counts students who have been absent for up to three years as still enrolled, in the belief that they may reenter school.[738] While this is not necessarily an unreasonable policy given the desire to mitigate barriers for children who wish to return to school, it means that enrollment data cannot be used as a close proxy for up-to-date attendance figures.[739]

Despite donor assistance, Afghanistan has struggled to improve its education outcomes in recent years. Attendance rates of primary-school age children did not improve between two comprehensive surveys conducted by Afghanistan's statistical authority (NSIA) in 2011–2012 and 2016–2017.

TABLE 3.21

USAID ACTIVE EDUCATION PROGRAMS

Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 10/9/2020
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2021	$49,828,942	$40,154,782
Let Girls Learn Initiative and Girls' Education Challenge Programme (GEC)	6/29/2016	6/28/2021	25,000,000	25,000,000
Advancing Higher Education for Afghanistan Development (AHEAD)	8/5/2020	8/4/2025	49,999,917	0
Support to the American University of Afghanistan (AUAF)	8/1/2013	10/31/2020	90,681,844	84,931,212
Non-U.S. Organization Pre-Award Survey (NUPAS) for AUAF	8/6/2020	9/30/2022	101,025	0
Capacity-Building Activity at the Ministry of Education	2/1/2017	1/31/2022	23,212,618	18,564,700
Financial and Business Management Activity	7/5/2017	10/31/2020	4,384,058	3,874,195
Afghan Children Read (ACR)	4/4/2016	4/3/2021	69,547,810	52,529,278
Textbook Printing and Distribution II	9/15/2017	12/31/2020	35,000,000	0
Total			**$347,756,214**	**$225,054,167**

Source: USAID, response to SIGAR data call, 10/12/2020.

"This is a remarkable finding, given the continuous efforts to expand primary education facilities across the country," the NSIA commented.[740] Nevertheless, given continuing violence that often makes it difficult for children to physically travel to school—and wariness on the part of parents who may not want to send them in areas where the risk of harm is high—the stagnation (and possibly deterioration) of the education sector might have been even greater, but for donor funding.[741] Thus, while donors may have been unable to bolster education outcomes from the levels of 2011–2012 and 2016–2017, donor support to Afghanistan's education sector may have at least held them constant.[742] Recent school closures due to COVID-19, however, likely have exacerbated difficulties, as the pandemic has "caused a profound impact and disruption in the education sector in Afghanistan" according to USAID.[743] Due to school closings and lockdowns, USAID-funded education program activities this quarter were severely restricted, with both in-person trainings and the development and distribution of educational materials delayed.[744]

Since 2002, USAID has disbursed more than $1.2 billion for education programs in Afghanistan, as of October 9, 2020.[745] The agency's active education programs have a total estimated cost of $347.8 million and can be found in Table 3.21

Some Schools Have Reopened, but Challenges Persist

On March 14, 2020, the Afghan government announced it would close all schools for an initial one-month period to help stem the spread of COVID-19.[746] Although the government intended to open schools by April 18, the closure was extended into the fall.[747] Beginning in early August, the Afghan government began a phased reopening of schools. All universities opened on August 5.[748] On August 22, the MOE announced that grades 11–12 in public schools, schools operating at the night shift from grade 7 and upwards, and all private schools would reopen, given the presence of fewer students and the presumption that preventive health measures would be easier to implement, according to USAID.[749] The Afghan government approved reopening public schools from the first to tenth grades on October 3.[750] As schools reopened, COVID-related challenges persisted. In Ghor Province, for instance, Ghor University was shut down after dozens of students tested positive for COVID-19.[751]

During the school closures, the Ministry of Education worked to ensure students had remote access to educational material and coursework, including broadcasting prerecorded lessons through radio and television broadcasts. Yet, such efforts were hampered by lack of electricity, power load shedding, and limited access to the internet, with only 14% of Afghans using the internet according to World Bank data.[752] In September 2020, the nongovernmental organization Save the Children found that 64% of children had no contact with teachers at all during the school closures, eight in 10 children believed that they had learned little or nothing during school closures, less than one in 20 children had at least one daily check-in with a teacher, and three in every 10 children reported some violence at home. Save the Children further reported that with limited access to remote-learning options, only 28.6% of students were able to access distance-learning programs through TV, 13.8% through radio, and just 0.2% through the internet during the lockdown.[753]

USAID's Afghan Children Read Program Adapted to Address COVID-19

USAID's five-year $70 million Afghan Children Read (ACR) Program had its programming adapted to address various issues related to COVID-19.[754] ACR has two primary objectives:[755]

1. To build the capacity of the MOE to develop, implement, and scale up a nationwide early grade reading curriculum and instruction program in public and community-based schools; and
2. To pilot evidence-based early grade reading curricula and instruction programs to improve reading outcomes for children in grades one through three in public and community-based schools

With the school closures and limitations on movement, COVID-19 limited and delayed a number of ACR's activities, making it "impossible for the [implementing partner] to meet the contractual obligations within the current period of performance," according to USAID.[756] The program staff was unable to distribute course materials and was forced to suspend both its trainings for teachers and data collection for its research activities.[757] Due to the closing of target schools, ACR delayed the end-line data collection for its Early Grade Reading Assessment that assesses the impact of the intervention and ensures the early grade reading curriculum and instructional program is implemented, a "critical component of the project's Monitoring and Evaluation plan," USAID informed SIGAR this quarter. ACR will conclude on April 3, 2021, and the end-line assessment will be incorporated into a follow-up USAID educational project that has yet to be awarded.[758]

With these limitations in place, ACR also redirected funding and adapted its programming to address a number of pandemic-related issues and support alternative means of promoting student access to education. These efforts included developing a home-based learning support plan for early grade literacy, in collaboration with the MOE; launching an awareness-raising campaign on COVID-19 to promote preventive public-health measures and home-based support suggestions for parents using phone calls, social media, and public service announcements; and developing an organizational capacity-development course for senior MOE staff on Strategies and Preparedness Planning in Crisis Situations.[759]

SIGAR AUDIT

Financial Audit 20-52-FA: USAID's Audit of Costs Incurred by Creative Associates International on Efforts to Improve Education through the Afghan Children Read Program

USAID awarded a cost-plus-fixed-fee task order for $69,547,810 to Creative Associates International to support the Afghans Read program (subsequently renamed Afghan Children Read). The task order included a period of performance from April 6, 2016, through April 5, 2021. USAID modified the task order four times, but did not change the budget or period of performance.

SIGAR's financial audit, performed by Davis Farr LLP, reviewed $13,048,489 in costs charged to the task order from October 1, 2017, through September 30, 2018. The auditors did not identify any material weaknesses or significant deficiencies in the auditee's internal controls, or any instances of noncompliance with the terms and conditions of the contracts. Accordingly, the auditors did not identify any questioned costs.

Seven More Convictions in AGO's Investigation of Logar Sexual Abuse Scandal

The Afghanistan Attorney General's Office's (AGO's) investigation into allegations that at least 165 boys were sexually abused in Logar Province continued this quarter, resulting in the convictions of seven of the 10 men arrested, bringing total convictions to nine, according to State. Additionally, the AGO indicted a further four suspects and issued warrants for their arrest.[760]

In late 2019, the allegations were made public by the Logar Youth, Social, and Civil Institution, which said it had discovered more than 100 videos of abuse on a Facebook page.[761] According to State, the AGO's investigation has identified 20 perpetrators.[762] It remains unclear whether these suspected perpetrators were part of a single criminal ring. Indictments have been issued for several of the men, including a Logar school official.[763]

Two activists were subsequently detained by Afghanistan's intelligence agency, the National Directorate of Security (NDS), and coerced into confessing that their accusations were untrue.[764] Then-U.S. Ambassador to Afghanistan John Bass decried NDS tactics as "Soviet-style" and "appalling." For safety reasons, both activists left the country with their families after their release.[765] Perhaps fearing for their safety, the activists neither shared their report with the MOE nor met with ministry officials, according to an MOE statement provided to donors.[766] To assess the truth of the allegations, a team of MOE officials visited the schools where the abuse was said to have occurred and distributed confidential questionnaires to students and teachers.[767] According to the MOE's analysis of data collected, "some respondents reported [the] possibility of individuals who could have [an] inclination towards child abuse; however, no child abuse was reported."[768] According to the MOE, ministry officials then requested that the AGO investigate.[769]

In response to the investigation, the MOE announced its intentions to reform its existing Comprehensive School Safety Framework to include training on awareness and prevention of sexual harassment, sexual assault, and gender-based violence. However, State informed SIGAR that the MOE did not execute these revisions during the previous quarter.[770]

HEALTH

Afghanistan's struggle with COVID-19 since late February 2020 has demonstrated the many limitations and inadequacies of the country's health sector. USAID asserts in its current strategy that advancing gains in Afghanistan's health sector will help the country become more stable and self-reliant.[771] As the agency told SIGAR as it was developing the strategy in December 2017, "healthy people and health[y] communities are the bedrock of a peaceful and stable nation."[772] However, public-health improvements' ability to contribute to stability has been limited by ongoing conflict across the country. In fact, insecurity has risen even as health outcomes have improved. And even severely insecure areas have demonstrated progress in health-service coverage, according to the World Bank.[773]

U.S. on- and off-budget assistance to Afghanistan's health sector totaled more than $1.4 billion as of October 9, 2020.[774] USAID's active health

Afghan doctors and medical staff review USAID-provided ventilator equipment. (USAID photo)

TABLE 3.22

USAID ACTIVE HEALTH PROGRAMS

Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 10/9/2020
Afghanistan Demographic and Health Survey (ADHS) Follow-On	10/9/2018	9/9/2023	$10,500,000	$2,000,000
Sustaining Technical and Analytic Resources (STAR)	5/1/2018	9/30/2023	2,186,357	568,557
TB Data, Impact Assessment and Communications Hub (TB DIAH)	9/24/2018	9/24/2023	600,000	191,980
National Health Technical Assistance Program (NHTAP)	7/10/2020	7/9/2025	117,000,000	0
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	54,288,615	34,588,615
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	12/6/2020	66,292,151	64,358,221
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	24,509,982
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	9/11/2020	57,645,037	52,692,198
Sustaining Health Outcomes through the Private Sector (SHOPS) Plus	10/11/2015	9/30/2020	12,500,000	10,941,825
Central Contraceptive Procurement (CCP)	4/20/2015	11/28/2023	3,599,998	1,350,309
Total			**$352,246,812**	**$191,201,686**

Source: USAID, response to SIGAR data call, 10/12/2020.

programs have a total estimated cost of $352.2 million, and are listed in Table 3.22.

USAID Health Programs Redirected to COVID-19 Interventions

Due to COVID-19, USAID informed SIGAR this quarter that it has redirected some of its health funding for COVID-19 interventions within each project, when the various programming situations permitted such a shift and if the funding was not earmarked.[775] Using the redirected funds, USAID health projects adapted to support various efforts combating the pandemic, such as supporting Afghanistan's capacity for COVID-19 investigations and testing, contact tracing, and case response.[776] USAID informed SIGAR this quarter that $36,739 in program funding has been redirected to Health Sector Resiliency activities in response to COVID-19.[777] The U.S. government also has provided 100 ventilators to Afghanistan to treat COVID-19 patients. In late September 2020, a USAID-dispatched engineer installed six ventilators in the Afghan-Japan Hospital and five ventilators in the Jinnah Hospital in Kabul, in addition to training biomedical engineers from the Ministry of Public Health and Jhpiego (USAID's implementing partner) to install the remaining ventilators in hospitals in Kabul, Jalalabad, Mazar-e Sharif, Herat, and Kandahar.[778]

USAID also noted that $9.9 million redirected from its National Health Technical Assistance Program to the World Health Organization (WHO), to assist the Ministry of Public Health's pandemic response, were redirected back to USAID in March 2020 following the U.S. government's new guidance suspending direct financial engagement with WHO or with implementing partners likely to direct funding to WHO.[779] USAID had earlier provided $770,000 to WHO obligated prior to the receipt of the new guidelines. This money was spent on expanding diagnostic facilities for COVID-19 testing and providing test kits, reagents, and lab supplies, including 10 Polymerase Chain Reaction (PCR) machines (the equipment necessary for identifying the presence of virus) for Kunduz, Farah, Nimroz, Ghazni, Ghor, Kabul, Herat, Badakhshan, Bamyan, and Khost Provinces.[780]

USAID's IHSAN Program Has an Early Closure, Two New Health Programs Launched

Last quarter, USAID informed SIGAR that it had moved up the project end date of the $57.6 million Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) from May 11, 2021, to September 11, 2020, with a budget reduction from $75.5 million to $57.6 million.[781] The project implementer FHI 360 explained in its most recent quarterly report (covering April–June 2020) that the project was unable to meet its annual targets due to the COVID-19 pandemic, the early closure and reduced budget, and the project staff's inability to adjust the FY 2020 targets to the new project parameters.[782]

According to USAID, IHSAN's early closure was part of a transition to two new health programs: the National Health Technical Assistance Program (NHTAP) and the Urban Health Initiative (UHI).[783] NHTAP is a five-year program to support the quality of and access to health services, health practices, and public health management in rural and peri-urban (or urban adjacent) regions, especially for women of childbearing age and preschool-aged children. The NHTAP was awarded on July 10, 2020, with a total estimated cost of $117 million. COVID-19 has slowed the project's start-up activities, particularly in-person meetings with Ministry of Public Health officials and other stakeholders. In addition, NHTAP staff recruitment is taking longer than usual.[784] UHI is a five-year program focusing on improving health service delivery in the cities of Kabul, Jalalabad, Mazar-e Sharif, Kandahar, and Herat, focusing on women, children, and other vulnerable populations including internally displaced people residing in slums. The project has a total estimated cost of $104 million and is expected to be awarded by the end of October 2020.[785]